

# PLATINUM | ADVISORS

## Capitol Update May Revise

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In advance of today's release of the May Revision, Governor Gavin Newsom has been leaking good news throughout the week relating to new investments proposed by his Administration made possible by a \$75.7 billion budget surplus across two fiscal years – the current year and budget year. Adding in \$25 billion in federal relief funds provides the \$100 billion platform for the Governor's California Comeback Plan.

The revised budget proposes total expenditures of \$267.8 billion, with general fund appropriations accounting for \$197 billion of this spending plan. This tremendous surplus has triggered the Gann limit for the first time in nearly 30 years. The May Revise estimates the Gann Limit will be exceeded by \$16 billion for the current and budget year. This appropriations limit requires the state to spend the amount exceeded on tax rebates and education funding. To address this requirement, the Governor has proposed to expand the Golden State Stimulus programs to provide tax rebates ranging from \$600 to \$1,100 to anyone earning less than \$75,000 per year, and increasing the state's investment in K-14 schools.

The bright times are not without risks, and it is a long road to a full recovery. The May Revise states immediate risks include public health concerns with new virus strains and vaccine hesitancy, higher inflation if disrupted supply chains cannot support increased consumer demand, more frequent and more widespread wildfires, and a stock market correction that would impact higher-income Californians and state revenues. California's heavy reliance on capital gains means a stock market correction would significantly impact state revenues, particularly with recent record highs creating a higher base from which to fall.

The May Revise does plan for future revenue drops. The May Revise proposes \$24.4 billion in total reserves. This includes \$15.9 billion in Rainey Day Fund reserves, \$450 million in Safety Net Reserves, \$4.6 billion in the Public School System Stabilization Account, and an estimated \$3.4 billion in the state's operating reserve.

With the May Revise now in place, the Legislature will quickly begin vetting the governor's revisions to his January proposed budget as well as considering their own priorities and how those align with the Administration's. The next month will zip by as budget subcommittees wrap up, leadership negotiations heat up, and each house adopts its own budget. There is no doubt a budget will be adopted by June 15<sup>th</sup>, but the size and number of the new spending

proposals will likely result in several provisions being delayed as negotiations continue over the summer.

Below is what we know so far regarding the governor's \$100 billion California Comeback Plan, however, as always, the devil is in the details, and the details will be revealed as the LAO analyzes the proposals and budget committee hearings commence.

**Homelessness:** \$12 billion over five years is proposed:

- Housing Units – \$7 billion (including the \$750 million proposed in January) for Homekey; \$1.75 billion for affordable housing; \$447 million for UC, CSU, and CCC to address student homelessness; and \$150 million to stabilize and rehouse Project Roomkey clients.
- Ending Family Homelessness – \$1.85 billion in new housing, \$1.6 billion in rental support and homelessness prevention, and \$40 million in grants to local governments.
- Encampment Strategy – \$50 million for local governments to assist in moving people from encampments to safer housing.
- \$1.5 billion to clean public spaces near highways and transform public spaces through arts and cultural projects.

Additionally, the governor proposes an assessment of all homeless spending to determine efficacy.

**Golden State Stimulus:** Almost \$12 billion for the expansion of the Golden State Stimulus program which will provide what the governor is calling tax rebates to 2/3 of Californians:

- \$600 to taxpayers making up to \$75,000 per year who did not receive a first payment;
- \$500 to families with dependents; and
- \$500 to undocumented families.

**Renter Assistance:** \$5.2 billion for back and several months future rent and \$2 billion for overdue water and utility bills.

**Small Business:** \$1.5 billion in additional funding for the California Small Business COVID-19 Relief Grant Program, which brings the total to \$4 billion for the program.

**Transportation:** The May Revision proposes an additional \$11 billion investment in the transportation system. These funds are focused on projects that reduce GHG emission and vehicle miles traveled, as well as maintaining the transportation system. The new investments include the following:

- *Los Angeles Olympics*—\$1 billion General Fund to deliver critical projects in time for the 2028 Olympic Games. These funds would be allocated through the Transit and Intercity Rail Capital Program (TIRCP), eligible projects must be in the Southern California region and related to the transportation needs for hosting the 2028 Olympic Games.

- *Priority Transit and Rail Projects*—\$1 billion General Fund for transit and rail projects statewide that improve rail and transit connectivity between state and regional/ local services. These funds would also be competitively allocated through TIRCP.
- *Active Transportation*—\$500 million General Fund to advance projects that increase the proportion of trips accomplished by walking and biking, increase the safety and mobility of non-motorized users. The intent of this allocation is to fund the list of projects already submitted and scored through the CTC's Active Transportation Program. While the CTC requested \$2 billion for active transportation projects, this significant investment was considered sufficient at this time.
- *High Priority Grade Separations and Grade Crossing Improvements*—\$500 million General Fund to support critical safety improvements throughout the state. These funds would be allocated through a competitive grant program for both freight and intercity rail related projects.
- *High-Speed Rail*—\$4.2 billion Proposition 1A funds to complete high-speed rail construction in the Central Valley, advance work to launch service between Merced and Bakersfield, advance planning and project design for the entire project, and leverage potential federal funds.
- *State Highway Rehabilitation and Local Roads and Bridges*—\$2 billion (\$1.1 billion special funds through 2028, and \$968 million federal funds) to support the advancement of priority State Highway Operation and Protection Program (SHOPP) projects, Interregional Transportation Improvement Program (ITIP) projects, and local road and bridge investments. The source of the \$1.1 billion is interest income from the State Highway Account and other accounts.
- *Zero-Emission Rail and Transit Equipment Purchases and Infrastructure*—\$407 million (\$100 million General Fund, \$280 million Public Transportation Account, and \$27 million federal funds) to demonstrate and purchase or lease state-of-the-art, clean bus and rail equipment and infrastructure that eliminate fossil fuel emissions and increase intercity rail and intercity bus frequencies. The \$280 million in PTA funds is from the state's share of this account.

***Clean California Initiative:*** The May Revise dedicates \$1.5 billion over three years for the newly created Clean California Initiative. This effort aims to clean up garbage statewide, beautify the state's transportation network, educate the public about the harms of litter, and create long-lasting litter deterrents. The Initiative includes the following elements:

- \$418 million for litter abatement activities, strengthening trash collection efforts by Caltrans and partners.
- \$430 million for state beautification projects, implementing sustainable, green beautification projects.

- \$444 million for local beautification projects, supporting communities, students, and local artists by working together to create meaningful, livable spaces and establishing a local grant program to match efforts that enhance communities and reduce litter on local streets, tribal land, and near transit centers.
- \$75 million for grants for art installations on the state and local transportation system.
- \$50 million for a public education campaign and outreach to schools and students.
- \$83 million over three years for project design, construction, local support and engagement, and administration required to deliver this initiative.

**State Transit Assistance (STA):** Various funding pots are allocated using the STA formula, and May Revise brightened the outlook for these programs. Total STA allocations for 2021-22 are now projected to reach nearly \$787 million, an increase of \$120 million from the January forecast. This growth is mainly attributed to higher fuel prices and growing consumption. The growth in funding for all transit programs is illustrated in the following chart.

Estimated Transit Funding (May 2021)							
Source	2020-21 (2020 GB)	2020-21 (2021 GB)	2020-21 (2021 MR)	Forecast Change (2020 GB to 2021 MR)	2021-22 (2021 GB)	2021-22 (2021 MR)	Forecast Change (2021 GB to 2021 MR)
<b>STA</b>							
Base (2.375%)	\$225,281	\$172,965	\$178,453	(\$46,828)	\$179,263	\$215,876	\$36,614
Gas Tax Swap (1.75%)	\$155,684	\$118,716	\$123,524	(\$32,160)	\$123,356	\$151,099	\$27,743
SB 1 (3.5%)	\$311,288	\$237,431	\$247,048	(\$64,241)	\$246,712	\$302,197	\$55,485
STA SOGR (TIF)	\$112,000	\$114,067	\$114,067	\$2,067	\$117,489	\$117,489	\$0
<b>Total</b>	<b>\$804,253</b>	<b>\$643,178</b>	<b>\$663,091</b>	<b>(\$141,162)</b>	<b>\$666,820</b>	<b>\$786,661</b>	<b>\$119,841</b>
<b>INTERCITY &amp; COMMUTER RAIL</b>							
Base (2.375%)*	\$225,281	\$172,965	\$178,453	(\$52,317)	\$179,263	\$215,876	\$36,614
SB 1 (0.5%)	\$44,470	\$33,919	\$35,293	(\$10,551)	\$35,245	\$43,171	\$7,926
<b>Total</b>	<b>\$269,751</b>	<b>\$206,883</b>	<b>\$213,746</b>	<b>(\$62,868)</b>	<b>\$214,507</b>	<b>\$259,047</b>	<b>\$44,540</b>
<b>LCTOP</b>							
Cap & Trade (5.0%)**	\$114,666	\$100,000	\$110,000	(\$14,666)	\$106,000	\$106,000	\$0
<b>Total</b>	<b>\$114,666</b>	<b>\$100,000</b>	<b>\$110,000</b>	<b>(\$14,666)</b>	<b>\$106,000</b>	<b>\$106,000</b>	<b>\$0</b>
<b>TIRCP</b>							
Cap & Trade (10.0%)**	\$233,408	\$200,000	\$220,000	(\$33,408)	\$213,000	\$213,000	\$0
SB 1 (TIF)	\$261,000	\$266,155	\$266,155	\$5,155	\$274,140	\$274,140	\$0
<b>Total</b>	<b>\$494,408</b>	<b>\$466,155</b>	<b>\$486,155</b>	<b>(\$28,253)</b>	<b>\$487,140</b>	<b>\$487,140</b>	<b>\$0</b>
<b>LTF</b>							
Sales and Use Tax (.25%)	\$1,993,621	\$1,822,723	\$1,902,270	(\$91,351)	\$1,807,441	\$2,010,268	\$202,827
<b>Total</b>	<b>\$1,993,621</b>	<b>\$1,822,723</b>	<b>\$1,902,270</b>	<b>(\$91,351)</b>	<b>\$1,807,441</b>	<b>\$2,010,268</b>	<b>\$202,827</b>
* Funds also used for other Caltrans purposes							
** Amount reflects auction revenues for the Fiscal Year							

**Climate Resilience:** The May Revise includes investing \$1.3 billion in General Fund revenue over multiple years (\$784 million in 2021-22) in projects and programs to support communities that are facing the impacts of climate change today and advancing efforts to conserve 30 percent of our lands and coastal waters by 2030.

- **Heat**—\$350 million General Fund over two years to support communities vulnerable to the impacts of extreme heat through funding for urban greening projects, accelerating deployment of low global warming potential appliances in low-income households eligible for energy efficiency upgrades, and supporting strategic greening of new near-zero emission low-income residential buildings

- *Sea Level Rise*—\$211.5 million General Fund over two years to protect communities from sea-level rise and flooding through coastal wetland restoration, and increasing coastal resilience of State Parks to advance coastal resilience as outlined in the State Parks Sea Level Rise Adaptation Strategy
- *Community Resilience*—\$495 million General Fund over three years to provide investments that align economic resilience with the State’s climate goals. This includes funding to support the Strategic Growth Council’s Transformative Climate Communities Program, with \$420 million over three year, including \$140 million in 2021-22. Another \$20 million over the next two years is allocated to the Regional Climate Collaborative.

**Zero Emission Vehicles:** The May Revision significantly increases the investment in the transition to zero emission vehicles, by allocating \$1.8 billion in 2021-22, and a total of \$3.2 billion over the next three years. The funding source is a mix of cap & trade, general fund, and Clean Transportation Program funding. This includes dedicated funding totaling \$290 million for transit buses and infrastructure, \$470 million for drayage trucks and infrastructure, and \$65 million for drayage truck pilot projects. This is in addition to \$402 million in cap & trade funds dedicated to CARB’s Clean Trucks, Buses, and Off-Road Equipment program.

The May Revision proposed a total of \$1.4 billion over three years to fund zero emission heavy duty vehicles, with the goal of deploying 1,000 zero emission drayage trucks, 1,000 zero emission transit buses, and 1,000 zero emission school buses. The zero-emission vehicle spending plan is outlined below.

### Zero Emission Vehicle Package

(\$ in Millions)

Investment Category	Department	Program	Governor's Budget	May Revision 2021-22	Total 2021-22
Low Carbon Transportation & ZEV Strategy	Air Resources Board	Clean Trucks, Buses & Off-Road Equipment	\$315	\$87	\$402
		Clean Cars 4 All & Transportation Equity Projects (\$400 million total)	\$150	\$0	\$150
		Clean Vehicle Rebate Project (\$400 million total)	\$0	\$134	\$134
	Air Resources Board & California Energy Commission	Drayage Trucks & Infrastructure (\$470 million total)	\$0	\$160	\$160
		Drayage Pilot Project	\$0	\$65	\$65
		Transit Buses & Infrastructure (\$290 million total)	\$0	\$100	\$100
		School Buses & Infrastructure (\$450 million total)	\$0	\$150	\$150
	California Energy Commission	Clean Transportation Program/ ZEV Infrastructure	\$500	(\$500)	\$500
		ZEV Manufacturing Grants (\$250 million total)	\$0	\$125	\$125
	GO-Biz	ZEV Market Development Strategy	\$0	\$5	\$5
Total			\$965	\$826	\$1,791

**Green Hydrogen:** May Revise includes \$912 million in investments in projects to meet the state's clean energy goals. This includes funding for energy storage and offshore wind energy projects. In addition, it includes \$110 million in general fund dollars to accelerate the production of green hydrogen and the transition away from using fossil fuels to produce hydrogen and to displace the use of gas at power plants.

**High Road Training Partnerships**—The May Revise provides an additional \$90 million for the Workforce Board to fund additional High Road Training Partnership (HRT) opportunities. This builds upon the \$25 million proposed in the Governor's Budget, totaling \$115 million for HRTs. These training partnerships up-skill the current workforce while creating pathways for new hires and prioritize workers from disadvantaged communities, including justice-involved and disconnected and at-risk older youth.